



**HARERA**  
GURUGRAM

# *AIFORERA*

## **FINANCIAL COMPLIANCES BY THE PROMOTERS IN RERA**

Real estate(Regulation & Development) act, 2016 aims to establish the Real Estate regulatory Authority to regulate And Promote the real estate sector for its harmonious growth and development

PRE-RERA SCENARIO



- Diversion of funds -

- Delayed Possession -

- Biased One sided Agreements -

- Unequal Penalties in Agreements -

- Sales on Inflated and Misleading Super Built Up Area -

- Misleading Ads in Real Estate Project Brochures -

- No Warranty on Workmanship Defects -

- Sales Before the Approvals -

REAL ESTATE REGULATORY AUTHORITY

- ✓ Before implementation of RERA, regulations existed, but they primarily focused on regulating **physical and spatial aspects**.
- ✓ With the introduction of RERA, an **adjudicating mechanism** was established to handle **Builder Buyer Agreements**, ensuring a more **comprehensive regulatory framework** for the real estate sector.

POST-RERA SCENARIO



Accurate & Authentic information about the promoter/projects

More Transparency in real estate sector transactions

No Sale on basis of Super Built up area

No Changes in plan/ designs without prior approval of allottees

No Diversion of funds from one project to another

No Inordinate delays in handing over the possession

# Concept of RERA

The Preamble of the Act describes as follows:

**AN ACT TO ESTABLISH THE REAL ESTATE REGULATORY AUTHORITY FOR REGULATION AND PROMOTION OF THE REAL ESTATE SECTOR AND TO ENSURE SALE OF PLOT, APARTMENT OR BUILDING, AS THE CASE MAY BE, OR SALE OF REAL ESTATE PROJECT, IN AN EFFICIENT AND TRANSPARENT MANNER AND TO PROTECT THE INTEREST OF CONSUMERS IN THE REAL ESTATE SECTOR AND TO ESTABLISH AN ADJUDICATING MECHANISM FOR SPEEDY DISPUTE REDRESSAL AND ALSO TO ESTABLISH THE APPELLATE TRIBUNAL TO HEAR APPEALS FROM THE DECISIONS, DIRECTIONS OR ORDERS OF THE REAL ESTATE REGULATORY AUTHORITY AND THE ADJUDICATING OFFICER AND FOR MATTERS CONNECTED THEREWITH OR INCIDENTAL THERETO.**

## 5 Pivotal Pillars of RERA ACT

Financial  
Discipline

Accountability

Customer  
Centric

Transparency

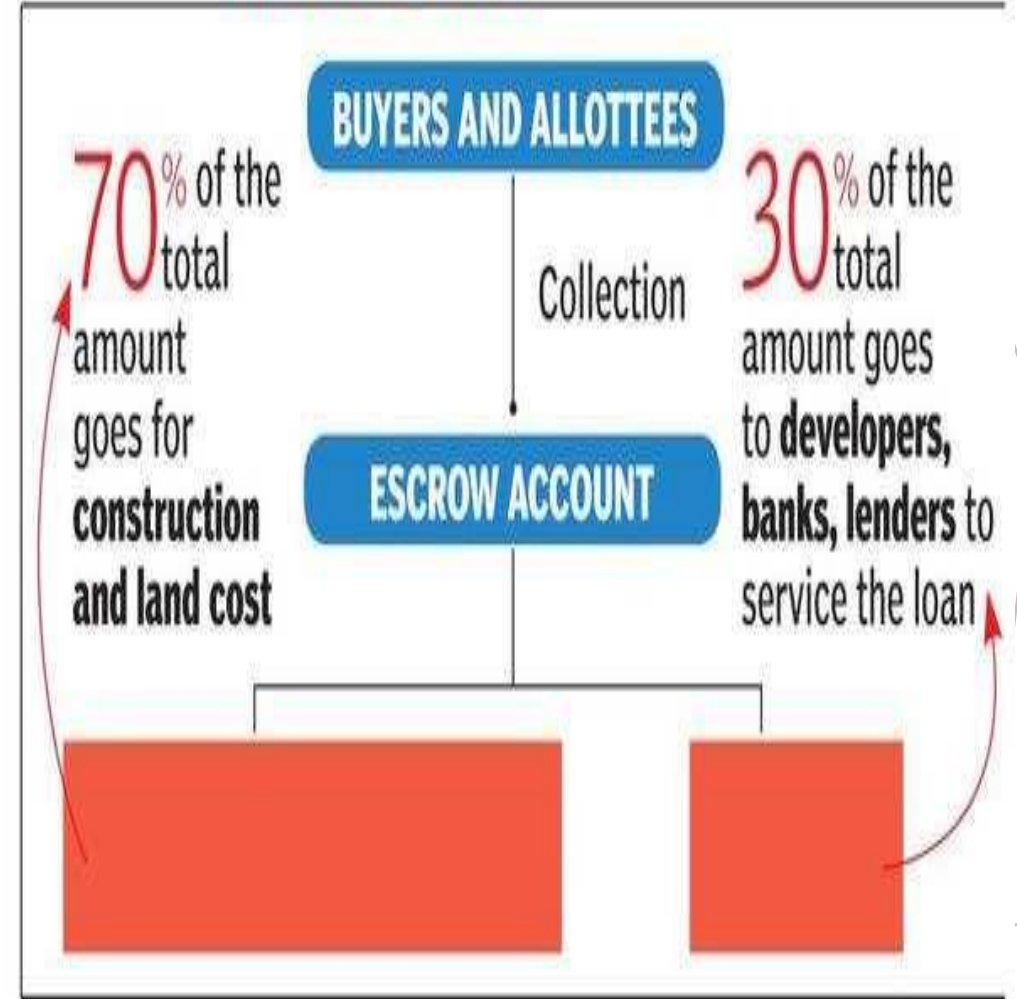
Compliance



## Financial Discipline

1. 70% of the funds collected from allottees needs to be deposited in the project account
2. Withdrawals to cover construction and land cost
3. Withdrawals, to be in proportion to the percentage of completion of the project
4. Withdrawals to be certified by Engineer, Architect and CA(third party)
5. Provision for RERA to freeze project bank account upon noncompliance/revocation
6. Project Accounts to be audited annually.
7. Provision for stronger financial penalties for RERA non-compliances
8. Interest on delay will be the same for customer and promoter
9. Promoter to compensate buyer for any false or incorrect statement with a full refund of property cost with interest

## WHAT RERA SAID

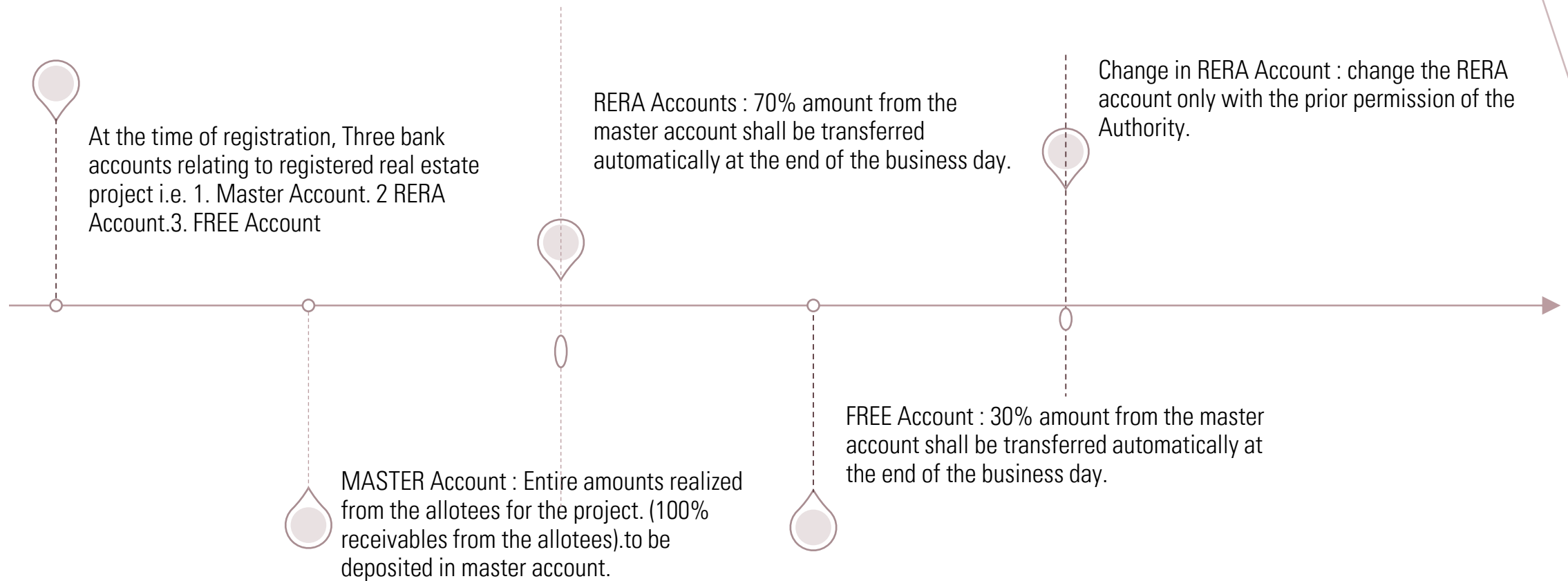


# ***GIST OF RERA FINANCIAL COMPLIANCES***

## **Let's have a look at the key provisions of RERA Act w.r.t financial compliances:**

1. With the implementation of the RERA Act, the developers have to disclose the project details on the official website of RERA and same are to be updated on quarterly basis to protect home buyer's trust & interest.
2. The real estate developer will have to transfer 70% of project funds in a separate escrow account, which he can use for construction cost and land cost of that project only.
3. For any delay in the construction of a project, the developer has to pay penalty @ MCLR+2% to homebuyers. Further it is also mandated in the Act that equivalent rate of interest shall be charged by the promoter from the allottee in case of default on part of allottee to pay the instalments.
4. Post delivery of a project; the developer has to provide free-of-cost maintenance and repair services for removal of structural defects to homebuyers up to the first five years from the date of offer of possession.
5. As per provision of section 13 of the RERA Act, the developer can't accept more than 10% as advance from homebuyers prior to execution and registration of BBA.
6. The promoter has the liberty to use 30% account as per his requirement but that too for the very same project.
7. Each & every withdrawal from RERA account is permissible only on submission of a certificate from an independent CA who should not be an auditor of that company/project.
8. There are stringent provisions of imposing penalties on the promoter in case of default in noncompliance of the provisions of section 4 & 11 of the Act, of the 2016 which are defined in sec 60 & 61 of the Act of the 2016 and penalty amount can go up to 5% of the total project cost.

# OPERATION OF BANK ACCOUNTS



# CHANGE IN RERA ACCOUNT

1.The promoter may change the RERA Compliant Account from one bank to another bank only with prior written permission of the authority.

2.The promoter shall not change Master Account of the project either in the same bank or to another bank without prior written permission of the authority

3.For RERA Account change request, promoter has to make written application along with necessary documents in the following forms:

4.Submit fund transfer compliance letter as per form RA3 (confirmation letter for change in RERA Account) along with form RA4 (certificate of fund transfer from bank with new RERA Account and proof) of previous RERA Account closure.

(a) Application for change in RERA Account as per form RA1.



(b) Certificate of account balance from bank with existing RERA Account as per form RA2.




## NO LIEN ON RERA ACCOUNT

There can not be any lien of any bank/ financial institution on RERA Accounts & no lenders can be a signatory to that (70%) RERA Separate Account. If some promoter does it, it is illegal.

## APPROVAL BEFORE CLOSURE OF RERA ACCOUNT

Even after completion of project RERA Bank Account can not be closed without the prior permission of RERA Authority to ensure that allottees interest w.r.t defects in construction/compensation for repairs upto 5 years of offer of possession is secured as per the provisions of act of 2016



One of the promoter filed an application before Authority for defreezing of bank accounts on which we found after verification that lender has become the signatory of the escrow account which is totally illegal.

## Importance of financial ratio at the time of project registration

When registering a real estate project with RERA, financial ratio analysis can play a vital role in Reviewing the project's viability and ensuring its genuineness.

**Leverage Ratio:**  
Leverage Ratio measures a company's inherent financial risk by quantifying the reliance on debt to fund operations and asset purchases, whether it be via debt or equity capital.

A) Debt-to-Equity Ratio.(Ideal ratio is 2:1)

B) Total Net Worth (TOL : TNW)

Ideal ratio ranges from 1-2:1

Allottees money can not be treated as equity rather it is a sort of debt & has to be counted in TOL & not TNW.

## Filing of QPR UNDER SECTION 11

Each promoter is obligated to file/ upload QPR of each project within 15 Days of end of each quarters.

- Functions and duties of promoter w.r.t QPR :
  - (i) Quarterly up-to-date the list of number and types of apartments or plots, as the case may be, booked/ sold;
  - (ii) Quarterly up-to-date the list of number of garages booked;
  - (iii) Quarterly up-to-date the list of approvals taken and the approvals which are pending subsequent to commencement certificate;
  - (iv) Quarterly up-to-date status of the project; and
  - (v) Such other information and documents as may be specified by the regulations made by the authority.”
  - (vi) To enclose CA, CE & Architect certificate along with QPR.

### Format of QPR



## Main points/facts to be verified while reviewing QPR

- 1.To see that complete details of units sold & unsold till end of that quarter is given.
2. To see that allottee wise details of units sold during that quarter is given, reflecting name, unit no., booking date, area, sale price, amount received and balance receivable.
3. To see that percentage of construction of project given in QPR matches with CA certificate, CE certificate & Architects certificate.
- 4.To see all these certificates of CA, CE & Architect are enclosed.
- 5.To see that balance available in RERA Account as shown in QPR matches with bank balance certificate /bank statement as many time it is observed that balance shown in RERA account in QPR does not match with the balance available in RERA bank account.
- 6.To match QPR of current quarter with that of previous quarter to see how much amount spent during the quarter & how much increase in physical status of construction as given in QPR & expenses incurred matches with percentage of growth in construction during the quarter.
- 7.To see that details of requisite compliances/approvals taken or pending is given.
- 8.To see details of units cancelled during the quarter & rebooked/resold is given in QPR.
- 9.To see that QPR certificate is certified from a CA who must sign & mention UDIN.
- 10.To see that chartered engineer & architect have given their registration number, license number on certificates.
- 11.To get physical status of construction verified by sending the engineer of the Authority at site for a physical check.

# An Example of wrong QPR

## Plotted Colony

Name of the approval	Status	Date
Layout Plan	Obtained Approval on	23-12-2021
Demarcation Plan	Obtained Approval on	11-11-2021
Zoning Plan	Obtained Approval on	25-04-2022
Service Plans	Obtained Approval on	31-08-2022
Electricity Plans	Obtained Approval on	10-02-2022

## Expenditure on Infrastructure (In Lakhs)

Total Expenditure on the project	5291.70
Expenditure made upto the date of Registration	0

## Expenditure on Taxes, Levies, EDC etc (In Lakhs)

EDC due as on the date of Registration	663.23
--	--------

## Financial Information for quarter ending on 31/12/2023 (OCT-DEC)

### Cash Inflow

S.No.	Cash Inflow	Amount (In Lakhs)	
1	Opening Balance	-459.28	-ve Balance
2	Amount collected from allottees against booked plots and/or apartments	585.13	
3	Amount availed from the bank/financial institutions	0	
4	Amount contributed by the promoters/his associates	0	
5	Any other receipt	0	
	Total	7038.14	

### Cash Outflow

S.No.	Cash Outflow	Amount (In Lakhs)
1	Expenditure on construction of apartments	0
2	Expenditure on infrastructure & other structure	42.48
3	Other costs including EDC, taxes, etc	8.85
	Total	51.33
	Balance	6986.81

# Variation in percentage of construction as per CA and CE



1

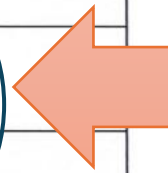
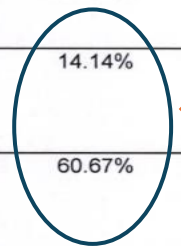


2



3

2	Total estimated cost of the real estate project (1(I) + 1 (II)) of estimated column -A	5676.54
3	Total cost incurred and paid of the real estate project (1(I) + 1 (II)) of Incurred and Paid Column – B	3443.81
4	Percentage of completion of construction work till now as per Project Engineer's certificate)	14.14%
5	Proportion of the amount paid till the end of month/quarter towards land and construction cost vis-à-vis the total estimated cost. %	60.67%
6	Amount which can be withdrawn from the separate RERA bank Account. Total estimated cost x proportion of cost incurred and paid	(Sr. Number 2 x Sr. Number 5) 3443.81
7	Collection till end of the Quarter	2063.06
8	70% of Total amount Collected to be utilized for Project Exp.	1444.14
9	Less: Amount withdrawn till date of this certificate as per the books of accounts and bank statement	1444.14
10	Net Amount which can be withdrawn from the separate RERA bank Account under this certificate.	1999.67



Project Engineer certificate shows 14.14% completion of construction whereas per CA certificate 60.67% construction cost has been spent.

Table- B

Details of RERA Bank Account:  
HARERA

## Consequences of Non filling of QPR

RERA can impose a penalty for non filing of QPR on project/promoters as per provision of sec 61 of the Rera Act of 2016 and can freeze its bank accounts & reject extension if applied for.

## Proposal for QPR Circulation

It is proposed that RERA should mandate for promoter to publish QPR of each project in the newspaper with circulation in the area, where project is situated and should mail to respective allottees within prescribed time limit of 15 days from end of each quarter.

## Effect of continuous follow up for compliances

A concerted drive was launched by RERA Gurugram, which included:

1. Notices
2. Threats of penalty
3. Summoning
4. Cajoling and finally QPR gets uploaded.



### Status of QPR

Particulars	Total	As on 31.12.2023			As on 30.06.2024		
		Submitted	Not Submitted	Compliance %	Submitted	Not Submitted	Compliance %
Mar-21	432	273	160	63%	401	31	93%
Mar-22	525	360	166	69%	491	34	94%
Mar-23	656	442	233	67%	612	44	93%
Dec-23	747	311	440	42%	688	59	92%

## Annual Statements of Accounts u/s 4(2)(I)(D)

The Annual statement of accounts of each project duly audited, certified and signed by the chartered accountant is to be submitted in the office of the authority till **30th September** after ending of F.Y.

**Nonsubmission** of audited statement of accounts duly certified and signed by the chartered accountant in respect of the project till 30th September is a violation of Section 4(2)(I)(D) of the Real Estate (Regulation and Development) Act, 2016. **which attracts penalty u/s 60 of the RERA Act of 2016 & which can go upto 5% of estimated cost of project.**

Format



# Points to be verified by RERA in Annual audited accounts filed by Promoters.

1. Total of all four QPR of that F.Y. matches with the figure given in annual audited statement.
2. To verify differences in financial figures budgeted v/s actual and reasons of differences to be given.
3. To match percentage of construction status given by architect/engineers with that of CA certificate.
4. 4(2)(l)(D) needs to be got certified from a CA who is a statutory auditor of company.
5. In some cases, amount collected under column 6.2 (ii) does not match with the total amount received in the master account of the project of the respective bank.
6. In some cases, amount received in the master account does not reconcile with the amount shown in separate RERA Account i.e. 70%.
7. Percentage of amount withdrawal does tally with percentage of completion of project
8. Total withdrawal funds from separate RERA Account does not match with the withdrawal limit of the project.

**Annual Report on Statement of Accounts received between 26.10.2023 to 12.03.2024 under section 4(2)(l)(d)  
(Total number of show cause notices issued are 580)**

Year	No: of Projects registered during the Year	Cumulative total of Projects	Promoters liable to file annual report after O.C./C.C.	ASA received
2017-18	268	268	264	3
2018-19	52	320	292	2
2019-20	75	395	333	3
2020-21	53	448	360	2
2021-22	98	546	433	11
2022-23	160	706	567	190

## Current status of 4(2)(I)(D)

**Annual Report on Statement of Accounts received between 13.03.2024 to 31.07.2024 under section 4(2)(l)(d)**

**(Total number of show cause notices issued are 713)**

Year	No: of Projects registered during the Year	Cumulative total of Projects	Promoters liable to file annual report after O.C./C.C.	Filed	Not Filed
2017-18	268	268	264	136	128
2018-19	52	320	292	213	79
2019-20	75	395	333	280	53
2020-21	53	448	360	332	28
2021-22	98	546	433	416	17
2022-23	160	706	567	533	34

# Improvement Measures

To mitigate and improve the gaps and challenges in financial management under the Real Estate (Regulation and Development) Act (RERA), various measures can be taken:

**1.Stricter Enforcement of Escrow bank Account Rules:** Regulatory authorities should ensure that developers strictly adhere to the requirement of depositing project funds into a separate escrow account. Regular audits and monitoring can help in this regard.

**2.Enhanced Financial Reporting:** Standard financial reporting formats for developers should be prescribed. Regulatory authorities should set up a proper monitoring cells to check compliances, so that red flags can be raised during the construction period itself.

**3.Insolvency Framework:** Develop a framework for handling insolvency and bankruptcy situations in the real estate sector, ensuring that the interests of homebuyers and creditors are protected.

**4.Effective Penalties and Accountability:** Strengthen mechanisms for enforcing penalties and holding developers accountable for financial mismanagement. This could include stricter penalties and more efficient dispute resolution processes.

**5.Education and Awareness:** Educate homebuyers and developers about their rights and obligations under RERA. This can help in better compliance and prevent disputes. And to arrange some seminars at least twice a year.

## Actions proposed by the various authorities

To implement the vision for improved financial management under the Real Estate (Regulation and Development) Act (RERA), various authorities, regulators, practitioners, promoters, allottees, estate agents, and industry associations should take specific actions. Here are recommendations for each of these stakeholders:

### **(a) Authority:**

- Implement a robust system for audit compliance with a proper monitoring cell.
- Standardize formats for financial reporting.

### **(b) Regulators (e.g., SEBI, RBI, ICAI):**

- Ensure that financial institutions/banks adhere to RERA-related guidelines while lending to real estate projects and while operation of RERA bank accounts by promoters, such as withdrawal from rera account strictly as per RERA Regulation.

### **(c) Promoters:**

- Strictly adhere to the guidelines for maintaining escrow accounts and timely project completion & timely compliances.
- Ensure transparency in project financials and communicate any cost overruns to homebuyers in QPR & annual statement.
- Maintain Debt equity ratio & cash flow in the project.

**(d) Allottees:**

- Stay informed about their rights and responsibilities under RERA & visit website of RERA to know status of their project.
- Monitor project financials and report any discrepancies to the regulatory authorities.

**(e) ICAI:**

- Issue guidelines w.r.t Accounting and Auditing Standards in line with RERA Act.
- Conduct peer review of CA firms, who are doing certification & audit of real estate projects.
- Maintain a panel of CA, who are eligible to do certification & audit of real estate projects audit.

**(f) Industry Associations (CREDAI, NAREDCO, BAI, CoRWA):**

- Promote best practices in financial management within the industry to arrange seminars in co-ordination with RWA.
- Collaborate with RERA authorities to disseminate knowledge and best practices.
- Establish grievance redressal mechanisms for financial disputes within the industry.

By taking these actions, the various authorities, regulators, practitioners, and industry associations can contribute to the effective implementation of the vision for improved financial management under RERA. This will help in creating a more transparent and accountable real estate sector in India.

# Suggestions

1. Strict monitoring and regular inspection of project.
2. Educate promoter for timely completion.
3. Regular checking of financial reports filed by promoter to raise red flags timely.
4. To arrange joint seminars of promoters, allottees & regulators at least once in a 6 month.
5. Advise promoter to maintain Debt equity and TOL/TNW ratio.
6. To take strict action against defaulter to set an example.
7. To publish quarterly statement, result synopsis in newspapers with circulation in area/state of project and to send QPR to all allottees on their mail as SEBI has mandate to publish quarterly results in newspapers and send by mail/post to all stake holders.
8. Authorities to increase vigilance and monitoring of registered real estate agents so that they do not spread wrong information of any project.
9. Details of net worth of promoter must be taken before registration of project to have an idea of his financial strength and promoters must be directed to file undertaking that they will maintain those assets mentioned in net worth certificate till completion of projects.

## Standardised Formats

At the time of implementation of Rera 2016, it was left open to all states to formulate their own rules. Now with experience it is felt that we should have standardized formats of all certificates & reports (such as CA, CE & Architect Certificate, QPR, Annual Audited Accounts & BBA) to achieve the basic goal of RERA & its smooth implementation.



## Conclusion

The Real Estate (Regulation and Development) Act (RERA) **has brought about significant improvements** in the real estate sector by enhancing transparency and accountability. However, there are still gaps and challenges, particularly in financial management, that need to be addressed.

Key actions include **the standardization of RERA regulations and formats, the development of digital infrastructure, the adoption of advanced technologies , and the establishment of strict monitoring and compliance mechanisms.**

By implementing these actions and continuously improving financial management practices under RERA, the very theme of preamble of RERA which focus on transparency & accountability can be achieved.





# *THANK YOU*

Member Sanjeev Kumar Arora

Email Address: [arora.sanjeevkumar@reraggm.gov.in](mailto:arora.sanjeevkumar@reraggm.gov.in)

: [arora.sk1959@gmail.com](mailto:arora.sk1959@gmail.com)

Website Address <https://haryanarera.gov.in/>